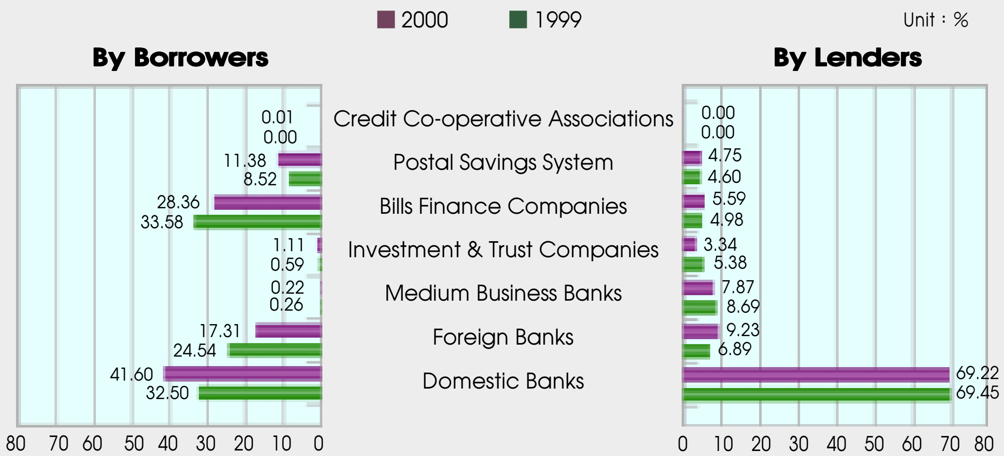
8. Money Market

Increased Trading in the Interbank Call-loan Market

The interbank call-loan market exhibited easy fund conditions in the beginning of the year 2000 due to continuous inflows of foreign capital. However, from the second quarter onwards, the NT dollar fund condition tightened with increasing demand for call loans. The reasons for this tightening included: a net outflow of foreign capital and a progressive decline in stock prices, affected by both international and domestic situations; and mounting pressure on the NT dollar to depreciate against the US dollar, which resulted in a shift from NT dollar to foreign currency deposits. For the year as a whole, trading in the call-loan market amounted to NT$9,535.7 billion, representing an increase of NT$169.1 billion or 1.8 percent from a year earlier.

With respect to market shares, domestic banks were the largest borrowers during the year, accounting for 41.60 percent of total trading, which reflects a significant increase of 9.10 percentage points over the previous year. They were followed by bills finance companies, foreign banks and the Postal Savings System, with shares of 28.36 percent, 17.31 percent and 11.38 percent, respectively. Among these types of borrowers, bills finance companies reduced their holdings of bills to prevent excessive exposure to credit risk. Banks, in their effort to reduce non-performing loan ratios, increasingly made loans at money market rates in replacement of purchasing bills. Moreover, the issues of commercial paper decreased due to weak fund demand from enterprises, which in turn resulted in a decrease in the borrowing needs of bills finance companies. In terms of lenders, domestic banks remained the largest providers of funds, accounting for 69.22 percent of total transactions. Their share declined by merely 0.23 of a

Composition of Interbank Call-Loan Market by Participant



percentage point over the previous year, mainly due to bills finance companies reducing their holdings of bills and hence their demand for funds.

Sluggish Short-term Bills Market

Issues of short-term bills amounted to NT$10,324.6 billion in 2000. Of the various instruments used, commercial paper still accounted for the largest share, or 87.49 percent, followed by negotiable certificates of deposit with a share of 11.15 percent, while bankers' acceptances made up the smallest share of only 0.45 percent. Total issues of bills declined by NT$351.9 billion, or 3.3 percent, as compared with that recorded in the previous year. The decline was mainly attributable to a decrease in issues of commercial paper, Treasury bills and bankers' acceptances; while issues of negotiable certificates of deposit increased. Reasons for the decline in the issues of commercial paper included the weak fund demand from enterprises, banks and bills finance companies decreasing their purchases and guarantees of bills to avert credit risk, and banks shifting from purchasing bills to lending in an attempt to reduce non-performing loan ratios, which, in turn, caused enterprises to issue fewer bills. By contrast, negotiable certificates of deposit increased because banks issued more negotiable certificates of deposit to meet the tightened fund conditions from the second quarter onwards. At the end of 2000, total outstanding bills amounted to NT$1,805 billion, reflecting a decrease of NT$228.3 billion, or 11.23 percent, from a year earlier.

Although bills outstanding decreased for the year, trading in the secondary market expanded with a total volume of NT$63,915.3 billion, representing an increase of NT$4,259.1 billion, or 7.14 percent, over the previous year. The increase was mainly attributable to enterprises shortening the maturity of bills in anticipation of falling interest rates in the second half of the year. Shorter maturities meant more re-issuance, which caused the total trading volume to increase. Of the total trading amount, commercial paper accounted for the largest share of 89.09 percent. In terms of market participants, banks and private enterprises were the two major parties, with shares of 32.72 percent and 32.39 percent, respectively.

Downward Trend of Money Market Rates

The interbank overnight call-loan rate exhibited a downward trend in 2000. The rate declined in the beginning of the year, reflecting easy fund conditions in the banking system, as foreign capital inflows increased persistently, and the fund demand of enterprises remained weak due to the doldrums experienced by traditional industries. During the middle of March, the NT dollar depreciated due to uncertainties related to the presidential campaign. In response, local banks adopted a conservative attitude toward fund management. Moreover, oil prices soared. The U.S. Federal Reserve hiked the Federal funds rate twice in February and March by a total of 50

Short-term Bills Market

Unit：NT$ Billion

Year	Total			Treasury Bills			Commercial Paper			Bankers' Acceptances			Negotiable Certificates of Deposit		
	Issue	Redemp-tion	Year-end Outstanding	Issue	Redemp-tion	Year-end Outstanding	Issue	Redemp-tion	Year-end Outstanding	Issue	Redemp-tion	Year-end Outstanding	Issue	Redemp-tion	Year-end Outstanding
1996	9,643.6	9,300.3	1,750.2	98.7	88.7	15.0	6,773.4	6,325.6	1,095.3	1,816.5	1,822.4	268.4	955.0	1,063.7	371.6
1997	11,348.9	11,056.8	2,042.2	57.3	52.3	20.0	8,872.1	8,670.8	1,296.5	1,018.7	1,155.2	131.9	1,400.7	1,178.5	593.8
1998	13,691.2	13,347.5	2,386.0	55.0	20.0	55.0	11,497.9	11,029.9	1,764.5	486.6	581.4	37.2	1,651.7	1,716.2	529.3
1999	10,676.5	11,029.2	2,033.3	315.0	220.0	150.0	9,390.6	9,663.8	1,491.3	66.0	90.0	13.2	904.9	1,055.4	378.8
2000	10,324.6	10,552.9	1,805.0	95.0	200.0	45.0	9,032.7	9,267.8	1,256.3	46.2	49.2	10.2	1,150.8	1,036.0	493.5
1999~2000 Changes	-351.9	-476.3	-228.3	-220.0	-20.0	-105.0	-357.9	-396.0	-235.0	-19.8	-40.9	-3.0	245.9	-19.4	114.7
Growth rate (%)	-3.30	-4.32	-11.23	-69.84	-9.09	-70.00	-3.81	-4.10	-15.76	-30.05	-45.39	-22.65	27.17	-1.84	30.29

Source: Financial Statistics Monthly, Taiwan District, the Republic of China, Central Bank of China.

basis points. This caused the interest rate differential between the US dollar and the NT dollar to widen. At the same time, market expectations were inclined to rising domestic prices. The Bank, therefore, took a pre-emptive measure by raising the discount rate and the rate on accommodations with collateral loans both by 12.5 basis points to 4.625 percent and 5 percent, respectively, on March 24. The interbank overnight call-loan rate rose mildly from 4.61 percent at the beginning of the year to 4.64 percent in March.

In April, oil prices continued to surge. As expected, the U.S. Federal Reserve raised the Federal funds rate anew by 50 basis points in mid-May. Under this influence, stock markets worldwide suffered a severe correction, and Taiwan's stock market also plunged downwards. Moreover, fraud cases and panic runs on local financial institutions and political disputes propelled an exodus of foreign capital. The NT dollar depreciated as a result. The Bank, in order to prevent the widening interest rate differential from imposing further pressure on the NT dollar to depreciate and to address potential inflation, raised the discount rate and the rate on accommodations with collateral both by 12.5 basis points to 4.75 percent and 5.125 percent, respectively, on June 27. Reflecting tightened fund conditions, the interbank overnight call-loan rate rose to 4.8 percent in June. Meanwhile, the Bank continued carrying out its mandate to maintain financial stability and promote economic growth. It implemented open market operations and other measures to inject liquidity into the market and also provided emergency accommodations to a few financial institutions which suffered panic runs. Consequently, money market rates were maintained at appropriate levels. On July 17, the Bank raised the remunerative rate on banks' interest-bearing required reserve accounts by 80 basis points to reduce banks' costs of funds. Moreover, in order to help channel funds from the banking system to industries and to reduce the funding costs of enterprises, the Bank lowered the issuing rates on short-term certificates of deposit in August. The call-loan rate and the interest rates on all types of bills dropped accordingly.

With fund conditions easing up, the interbank overnight call-loan rate declined to 4.75 percent.

In September, due to political and economic instability on the domestic front, coupled with worldwide stock markets precipitating on worries over the U.S. economy, Taiwan's stock market plunged and pressure on the NT dollar to depreciate mounted. Local banks adopted an even more conservative attitude toward fund management because of their rising non-performing loan ratios and the financial difficulties of some enterprises. Therefore, the interbank overnight call-loan rate rose again to 4.8 percent in September. In October, the Bank successively released the postal savings redeposits and decreased issues of its certificates of deposit to pump liquidity into the money market. These measures gradually eased up fund conditions and pushed interest rates downwards. In addition, as the decelerating growth of the U.S. economy triggered interest rate cuts in the U.S., the pressure on the NT dollar to depreciate was lessened. Furthermore, inflationary pressure on domestic prices eased, as the domestic economy weakened and international oil prices declined. Taking all these factors into account, the Bank further lowered the discount rate and the rate on accommodations with collateral both by 12.5 basis points to 4.625 percent and 5 percent, respectively, on December 29. In response, the interbank overnight call-loan rate trended downward to 4.72 percent in December. For the year as a whole, the interbank call-loan rate was 4.73 percent on average, recording its lowest level since 1988. Issuing rates of commercial paper with a duration of 1 to 30 days averaged 5.34 percent, the lowest level since 1989, while those with maturities of 31 to 90 days averaged 5.18 percent, also the lowest since 1988.

Overnight Call-loan Rate, Commercial Paper Rate & Excess Reserves of Depository Institutions